June 16, 2009

Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

File Reference. No.: 1660-100

Dear Sir/Madam:

United Technologies Corporation (UTC) welcomes the opportunity to share its views on the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) (collectively, the “Boards”) discussion paper entitled Preliminary Views on Revenue Recognition in Contracts with Customers. UTC is a $55 billion global provider of high technology products and services to the building systems and aerospace industries with over 4,000 locations in more than 180 countries.

Our business units operate in diversified industries, and as a result, we apply a wide range of revenue recognition methodologies based on the practices within those industries. For example, we have:

- Revenues associated with elevator and escalator sales, installation and modernization contracts that are accounted for under the percentage-of-completion method;
- Revenues associated with government and commercial fixed-price contracts and government fixed-price-incentive contracts that are recorded at the time deliveries are made or, in some cases, on a percentage-of-completion basis;
- Revenues associated with cost reimbursement contracts that are recorded as work is performed; and
- Revenues associated with service sales, representing aftermarket repair and maintenance activities, that are recognized over the contractual period or as services are performed.

We commend the Boards for their cooperation in developing consistent revenue recognition policies for use within both U.S. generally accepted accounting policies (US-GAAP) and International Financial Reporting Standards (IFRS). We strongly support the joint work plan agreed upon by the Boards and believe that successful convergence is the first critical step towards moving to a single set of globally accepted accounting standards.

While we believe that both US-GAAP and IFRS would benefit greatly from improvements and convergence of the revenue recognition guidance, there are several industry-specific issues which should be thoroughly considered, as application of the single revenue recognition model may not reflect the economic substance of all transactions. For these reasons, and as further
explained in our attached responses to the specific questions raised in the discussion paper, we recommend the Boards consider the following:

1. We believe that the accounting for revenue transactions should mirror its economics. However, we do not believe the proposal would achieve this objective for long-term construction contracts and production contracts to meet a customer’s specifications (collectively, long-term contracts). Instead, the continued application of percentage-of-completion accounting, as currently applied, would facilitate more consistency and generate more decision-useful information for users of financial statements.

2. Both IFRS and US-GAAP currently either allow or require the combination or segmentation of contracts. For example, there may be two or more contracts that are so closely related that they are, in effect, a single project with an overall profit margin. Accounting for the contracts separately, with separate profit margins, may not provide additional decision-useful information. We recommend that the Boards incorporate guidance on combining and segmenting performance obligations into the revenue recognition model. Further, the Boards should provide further guidance on the unit of accounting as it relates to long-term contracts.

3. We recommend that the Boards incorporate into the proposed standard contract cost guidance as it relates to long-term contracts.

4. The Boards should also consider incorporating guidance for the treatment of contingent consideration into the proposed standard.

5. We do not believe contingent obligations, such as standard warranty provisions, should be considered performance obligations.

6. We recommend that the Boards clarify that the proposal does not apply to revenue recognition for financial instruments or leasing contracts.

We would be happy to further discuss our views on the discussion paper with the members or staff of the Boards.

Very truly yours,

[Signature]

Margaret M. Smyth
Vice President, Controller
ATTACHMENT

1. Do you agree with the boards’ proposal to base a single revenue recognition principle on changes in an entity’s contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

We support the Boards’ objective of creating a single revenue recognition model for both US-GAAP and IFRS, subject to the exceptions presented in our response to question number two of this response letter. We believe that the principle objectives of this project will provide additional decision-useful information to the users of financial statements. The conflicting standards that are in place under US-GAAP make interpretation of results and comparison across industries difficult for users. Furthermore, the lack of existing guidance under IFRS requires analogies to other GAAP to determine the accounting for certain types of revenue arrangements.

We agree that the existing revenue recognition guidance may lead to differences in accounting for economically similar situations. We believe that the accounting for revenue transactions should follow the economics of those transactions, and we welcome the Boards’ efforts to improve that alignment. While the proposal would significantly improve the recognition of the assets and liabilities that result from contracts, it appears to do so while sacrificing the earnings focus that has come to be expected by financial statement users. In short, the proposed balance sheet focus may obscure the economics of the revenue arrangements. We believe that an earnings focus can be retained and the balance sheet recognition of net contract position can be improved if certain changes are made to the criteria for identification and satisfaction of performance obligations. Please see our responses to questions four and five for our recommendations related to the identification of performance obligations and our responses to questions eight and nine for our recommendations related to the satisfaction of performance obligations.

Finally, companies that engage in long-term contracts have made significant investments in systems which typically track progress at the contract level. Many of these companies may be forced to incur significant additional investment to track progress at the performance obligation level.

2. Are there any types of contracts for which the boards’ proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

We do not believe the proposed model would provide decision-useful information for insurance contracts or contracts to exchange financial instruments. The scope outlined in paragraph S11 of the discussion paper does not provide clear guidance on the applicability of the discussion paper to these types of contracts. Rather, it states that the Boards “have not excluded any particular contracts with customers from the proposed model.” We recommend that the Boards clarify the scope to exclude these types of contracts. Furthermore, given the separate leasing project currently underway, we agree that leasing contracts should be outside of this discussion paper. Finally, we believe the proposed model will provide decision-useful information for long-term contracts with the incorporation of certain modifications, which we suggest in our responses to questions three, four and five.
3. Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

We agree with the Boards' definition of a contract and believe that the definition is broad enough to encompass all situations and agreements which lead to the generation of revenue. However, we recommend that the Boards expand upon the definition of a contract to allow for the combination and segmentation of contracts in certain circumstances. Both IFRS and US-GAAP currently either allow or require the combination or segmentation of contracts. For example, there may be two or more contracts that are so closely related that they are, in effect, a single project with an overall profit margin. Accounting for the contracts separately, with separate profit margins, may not provide additional decision-useful information. Under Statement of Position 81-1 “Accounting for Performance of Construction-Type and Certain Production-Type Contracts” (SOP 81-1), contracts may be combined or segmented for accounting purposes if the contracts meet certain criteria. Similarly International Accounting Standard 11, “Construction Contracts,” (IAS 11) requires the combination or separation of contracts for accounting purposes if the contracts meet certain criteria. We recommend that the Boards preserve the ability to combine and segment contracts. Furthermore, we endorse the employment of an SOP 81-1 approach and the allowance for judgment as to whether the combination or segmentation provisions are applied, since the guidance will need to be applied by companies in disparate industries facing diverse circumstances and situations.

In addition, we recommend that the Boards clarify the definition of a contract to indicate that a contract exists only between those parties that have enforceable rights and obligations. An agreement which creates an enforceable obligation on one party, but not on the other party, is not a contract. For example, a company that offers promotional discounts or marketing materials may promise a defined discount on a future purchase. While the company would have an enforceable obligation to honor the promotional discount, there is no enforceable obligation on the part of any prospective customer. Accordingly, such an agreement should not be considered a contract and should fall outside of the scope of this proposed model.

4. Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

We believe for long-term contracts, the unit of accounting is the contract and that separation of the contract into multiple performance obligations would be artificial and contrary to its economic substance. The Boards should provide guidance on when it is appropriate to combine performance obligations.

We believe that the Boards’ definition of a performance obligation is too general and will capture varying degrees of obligations or deliverables that a company may have under contract with a customer. This could include obligations such as standard warranty, right of return, and discounts, that we do not believe should follow the principles outlined in this Discussion Paper. We believe these obligations are contingent obligations that are linked to other performance obligations and should therefore continue to be accounted for under other literature (i.e., FAS 5, FAS 48, FIN 45 and IAS 37 and IAS 18).
Standard warranties provide a guarantee that the delivered product will function as promised for a period of time and are inseparable from the delivered product(s). Additionally, the warranty cannot be sold without the associated product. Therefore, separating the warranty and estimating revenue associated with that warranty is inconsistent with the nature of warranty obligations.

Services provided under standard warranty coverage are not the same as those that would be provided under a maintenance contract, which is separately offered in several of the industries we operate in. Standard warranty coverage relates to correction of manufacturing defects or product failures while maintenance relates to the on-going operation of the asset. Take the products sold in our Heating Ventilating Air Conditioning and Refrigeration (HVAC) businesses at Carrier as an example. Very few are expected to fail during the standard warranty period. Therefore, we believe it is more appropriate to treat this as a contingent obligation for a small percentage of our customers, rather than to defer a portion of revenue for all customers. There is a contingency that must occur before the standard warranty is exercised, i.e., failure of the product once installed by the customer or an agent that they select. Our products are not manufactured to fail and consequently, we should not assume that there is a performance obligation outstanding to all customers who have purchased the product. Rather, we believe these contingent obligations should continue to be accounted for under other literature such as FAS 5, FIN 45 or IAS 37, and should not be accounted for as performance obligations.

We believe the Boards should provide clarification that a performance obligation is created only for a warranty that it has stand-alone value and is sold separately in the marketplace. A standard warranty is not a performance obligation, and therefore revenue should not be deferred related to it.

5. Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

We agree that an entity should separate the performance obligations in a short-term contract on the basis of when an entity transfers control of the promised good or service to the customer. However, as discussed in question four, for long-term contracts, we believe that the contract is the unit of accounting, and therefore, all performance obligations under a contract are linked. For example, a contract to manufacture ten engines should be the unit of accounting. The unit of accounting should not be a single engine. We suggest the Boards provide guidance on when performance obligations can be aggregated. As stated previously, we believe that the criteria currently defined in SOP 81-1 for combining contracts is operational in practice and may also be used in the new revenue standard for determining when performance obligations can be aggregated or linked. For shorter-term contracts or those that aren’t considered long-term contracts, we believe the multiple-element arrangement guidance in EITF issue 00-21, “Revenue Arrangements with Multiple Deliverables” (EITF 00-21) provides a clear understanding of the separation of deliverables that have stand-alone value to the customer within a contract.

Current contract accounting standards require an estimate to be made of a single gross margin for all production units expected to be delivered. This estimate relies on an average
cost for all units under the contract, and each unit shipped is allocated a pro-rata portion of the total contract price based on total expected shipments. This is consistent with how contracts are negotiated with customers, and also how long-term contracts are managed internally. A consistent profit margin estimate for all goods delivered under the contract provides financial statement users with more decision-useful contract information than separating performance obligations and potentially recognizing different profit margins on the same product under the same contract with a single customer. We believe separating performance obligations in long-term contracts will result in added complexity in analyzing financial statements.

6. Do you think that an entity’s obligation to accept a returned good and refund the customer’s consideration is a performance obligation? Why or why not?

No. As discussed in our response to question four, we believe that a customer’s right of return is based on a future contingent event. Therefore, we believe it should not be considered a performance obligation. We believe the likelihood of having to satisfy this obligation should be estimated based on historical experience and accounted for under current US-GAAP and IFRS.

7. Do you think that sales incentives (e.g. discounts on future sales, customer loyalty points and ‘free’ goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

We believe an offer of free goods or services or a significant discount to a customer does give rise to a performance obligation. Since the offer is at little or no cost to the customer, it should be expected that the customer will require delivery of the free goods or services or significant discount.

An offer of a future discount does not constitute a performance obligation as there is no contract between the two parties. The customer is not required to purchase the good or service and the selling entity does not have a contract to sell the good or service.

8. Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

Long-term contracts require significant investment and expenditure by a company over a long period of time. Similarly, customers typically submit partial or progress payments over the term of the contract in recognition of the long-term effort required by these contracts. The Boards’ proposed model for revenue recognition reflects only the transfer of assets to the customer. Given the significant investment of resources which are required in a long-term construction contract, we believe it is more appropriate to measure revenue recognition by the activities required to construct the assets.

We believe delivery to be perfunctory and incidental to the obligations of a company under long-term contracts. Rather, it is the service of construction (the activities required to construct the asset), which should be the driver of revenue recognition. For example, consider the following two scenarios.
a. A home construction company builds homes to customers’ specifications on its own land. Under the proposed model, the company would follow a revenue recognition model no different from a retail store; the company would recognize all revenue at the end of the construction period, when the customer takes ownership.

b. A home construction company builds homes to customers’ specifications on its own land. In addition, the company requires its customers to enter a lease for the underlying land for the duration of the construction period. Under the proposed model in this situation, the company would be able to use percentage-of-completion accounting, since their customers lease and control the land, and the company is transferring control as it performs work.

In the above two examples, the construction activities are identical; a company is performing construction work at its customer’s direction over a long period of time. However, the revenue recognition models required in each of these two situations are dramatically different, principally because the proposed model requires revenue recognition upon the transfer of assets to the customer.

Instead of a focus on the transfer of assets, we believe it is more appropriate to measure revenue recognition by the activities required under long-term arrangements where there is significant customization of the delivered assets. Such an approach is supported by the recently issued International Financial Reporting Committee Interpretation 15, “Agreements for the Construction of Real Estate” (IFRIC 15). IFRIC 15 requires the use of percentage-of-completion accounting for arrangements that allow the buyer to “specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether or not it exercises that ability).” A customer’s rights to customize, specify design, and apply change orders imply a level of control by the customer throughout the construction progress. This control may also be supported by a payment schedule which requires some up-front investment in the project by the customer or progress payments as contract milestones are achieved. Since the customer has control over the assets during their construction, the performance obligations are satisfied, and revenue is recognized, as the assets are constructed.

9. The boards propose that an entity should recognize revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, provide examples.

We agree that entities should recognize revenue only when a performance obligation is satisfied. However, as discussed further in our response to question eight, we believe that performance obligations are satisfied under long-term contracts to deliver customized assets as the assets are constructed.

The Boards’ proposal would defer revenue recognition on many long-term contracts until transfer of physical control to the customer. Revenue would not be recognized on these contracts until the contract is complete. Thus, the users of financial statements would not be informed of revenue and cost information until the completion of a contract. This presents a significant change from current practice which permits revenue recognition as construction activities are performed. Furthermore, the Boards’ proposal would result in significant volatility in the earnings of companies engaged in long-term contracts. Earnings forecasting by users of financial statements would prove difficult as it would be entirely driven by the
timing of contract completion, rather than by the company’s performance on its contracts. Moreover, it would increase the susceptibility of financial statements to manipulation by timing the final delivery of an asset to the customer.

As a result, we recommend the Boards modify their proposal to incorporate the guidance issued under IFRIC 15 and allow percentage-of-completion accounting for long-term contracts to deliver customized assets. We believe the IFRIC 15 approach will deliver more useful information to the users of financial statements than the model proposed.

10. **In the boards’ proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.**

(a) **Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?**

We agree with the Boards’ proposal to initially measure performance obligations at the transaction price. The transaction price provides a more reliable and easily observed measure of performance obligations. We believe the use of the transaction price will result in more consistent and accurate valuations of performance obligations. However, as previously discussed, we do not believe that standard warranty obligations which are included in the contract should be measured as a separate performance obligation. Instead, the entity should accrue for and include estimated standard warranty cost as a component of its cost of goods sold.

In addition, we suggest that the Boards include additional guidance to allow estimates of contingent revenue (e.g. award fees, change orders, and claims) where there is sufficient historical basis to support an estimate of the most likely outcome.

(b) **Do you agree that a performance obligation should be deemed onerous and remeasured to the entity’s expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?**

As previously discussed, we believe the unit of accounting in long-term contracts should be the contract, and performance obligations under contracts should not be separated and assigned different revenues and margins. Additionally, we suggest the continual remeasurement of performance obligations as cost estimates change over the life of a contract on a cumulative catch-up basis. Furthermore, given the unique and integrated relationship between revenues and costs in long-term contracts, we suggest that the Boards incorporate cost accounting guidance for long-term contracts into the proposed model.

We do not believe it is appropriate to include future profit in the valuation of onerous contracts, as proposed under the “Current Price Test.” Satisfaction of performance obligations under an onerous contract, by definition, requires a commitment of resources in excess of the rights to receive compensation. If an entity records a provision for future profit on an onerous contract, the future periods’ results would imply the satisfaction of an obligation that is not onerous.
(c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.

Under long-term contracts, there are common situations which may lead to contingent revenue, such as award fees, change orders, and claims. Many times, the realization of contingent revenue is binary, or an all-or-nothing agreement. For example, an entity may receive an award fee only if they deliver a constructed asset ahead of schedule. If the asset is delivered on-time or later, the entity would not receive an award fee.

We do not believe a weighted probability approach would accurately reflect the most likely outcome of contingent revenue in long-term contracts. In an all-or-nothing contingent revenue arrangement, a weighted probability approach would require measurement values which may never be realized. Furthermore, entities will arrive at more accurate estimates of contingent revenue through the application of judgment and the entity’s historical experience. Accordingly, we believe both the initial value and any revaluation of contingent revenue should be based upon the entity’s best estimate of the most likely outcome.

(d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

We agree that the measurement of an onerous performance obligation should include the expected future costs to satisfy the onerous performance obligation.

11. The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (e.g. selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognize those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

(a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity’s performance obligations? Why or why not?

We agree that any costs to obtain a contract should normally be recognized as expense as incurred and any amounts that an entity charges customers to recover such costs implicitly within the contract should be included in the initial measurement of the performance obligations. Normally, providing a contract to a customer does not result in the transfer of an asset of value to the customer, as the definition of performance obligations requires. Only upon the successful completion of the performance obligations included within that contract should contract assets be generated. However, if a contract explicitly provides for the non-refundable compensation for the costs incurred to obtain the contract, such costs should then be recognized as an asset and considered a separate performance obligation of the contract.
(b) In what cases would recognizing contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

Within the industries in which we operate, we are unaware of any instances where recognizing contract origination costs as expenses as they are incurred does not provide decision-useful information about an entity's financial position and financial performance. Providing a contract to a customer does not normally result in the transfer of an asset of value to the customer, as the definition of performance obligations requires. Only upon the successful completion of the performance obligations included within that contract should contract assets be generated.

We understand that for other industries, this could have a profound impact, such as those that deal with leasing and incur significant contract origination costs. However, as the preliminary determination by the Boards is to allow for the continued capitalization of these costs when allowed by other standards, we believe that this should not pose a significant issue.

12. Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

We agree that the transaction price should be allocated to the performance obligations on the basis of the entity's standalone selling prices of the goods or services underlying those performance obligations, or if not sold separately by the entity, based on the "standalone" selling prices available in the market, excluding long-term contracts where the unit of accounting may be deemed the contract as discussed further in our response to question two.

However, if the standalone selling price of a good or service is not available because they are not sold separately, then an entity should not allocate the transaction price to those goods or services based on estimates. Otherwise, an entity would report revenue based purely on subjectively estimated transaction prices for an activity that does not separately generate revenue on a discrete basis.

13. Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?

If an entity does not sell a good or service separately, and a similar good or service is not sold separately by other entities, then an entity should not estimate a stand-alone selling price. Estimating a standalone price that is not available in the market would require an entity to exercise significant judgment that could be easily subject to manipulation, and should therefore be prohibited. In addition, if an entity allocates the transaction price to a good or service for which a standalone price is not available in the market, an entity would be reporting revenue for an activity that is not a discrete revenue producing activity. Our responses to questions four and five contain additional comments regarding the identification of performance obligations.